



Development of Support Networks to Assist Small- and Medium-Scale Enterprises in Ukraine, Moldova, and Belarus (NewBizNet)

Final Report

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INTRODUCTION

SME DEVELOPMENT IN THE 1990S IN WEST NIS

At the time of project design and award, the private sector in the countries of Ukraine, Moldova and Belarus had yet to emerge as a driving force for local economic growth. Partially implemented economic reforms weakened already constricting economies and further limited the development of the nascent private sector. Internally, private businesses were largely managed according to central planning principles and managers lacked the basic skills and knowledge of modern business procedures common in a market environment. Specifically, they lacked skills in international accounting procedures, strategic planning and forecasting, pricing and market functions, distribution techniques, advertising and marketing, and organizational management.

NEWBIZNET SCOPE OF WORK

In this context, USAID's NewBizNet Project was awarded to Development Alternatives, Inc. (DAI) in 1994 and initiated in 1995. The goal of the project was to stimulate economic growth of local communities in Ukraine, Moldova, and Belarus, through development of their small and medium-sized private business sectors.¹ The focus was on building business service groups, and increasing their ability to support private business development through training, education, information and research on international best practices. The project was designed in support of USAID's strategic objective: "Accelerated development and growth of private enterprises."

As with many multi-year projects, the Scope of Work (SOW) was periodically amended to reflect changing opportunities and new approaches to developing the SME sector in Ukraine.² As a result, NewBizNet effectively operated in three phases with three slightly different approaches that reflected the changing, and in some cases improving, environment for small and medium-sized enterprises (SMEs). Though the shift in approach and activities was gradual, in general the three phases are as follows:

- Phase 1 (1995-1997), focused on developing indigenous business service providers;

¹ NewBizNet was initially designed to conduct activities in Belarus as well as Ukraine and Moldova. However Belarusian elections in 1994 resulted in a government administration, led by Alexander Lukashenko, that was and still is uninterested in expanding private sector development and market orientation. Periodically throughout the project, NewBizNet sent teams to Belarus to confer with other international organizations operating in country and identify potential interventions for NewBizNet in Belarus. Given the political context, NewBizNet recommendations and subsequent USAID decisions were consistently against formal expansion of NewBizNet operations into Belarus. This report, then, focuses primarily on NewBizNet activities in Ukraine and Moldova.

² The original technical scope of work was formally changed twice during the life of the project—once in 1997 through modification #3 and again in 1999 through modification #9.

- Phase 2 (1997-1999), increased focus on supporting business associations, while continuing support to business service providers; and
- Phase 3 (1999-2000), intensive focus on business associations and policy reform, as well as pilot activities to stimulate market demand for business services.

The following chapters discuss the activities in each of the three phases in more detail, to include the approach taken, results achieved, and lessons learned.

CHAPTER ONE

PRINCIPLE ACTIVITIES AND OUTCOMES (PHASE 1, 1995-1997)

PROJECT STRATEGY AND APPROACH (PHASE 1)

NewBizNet was awarded in late 1994 and, following a USAID-imposed “stop-work order” and a subsequent redesign after GOU elections, the project was authorized to begin fielding long-term personnel in June 1995. During the last six months of 1995 the U.S. long-term technical advisors were mobilized and Ukrainian staff assembled. During **Phase 1 (1995-1997)** of the project, activities were focused intensively on building the supply of business support services.

The Business Support Centers (BSCs) selected in the fall of 1995 all had existing programs of some degree, but NewBizNet assisted in expanding the scope and reach of their services through training, technical assistance, and systems upgrades. NewBizNet assistance was designed to produce high-performance BSCs, which would be characterized by:

- A wide-ranging business service capability to assist both start-up and more advanced businesses with marketing, operations, finance, and business planning, through complementary training courses and individualized consultations of a more specialized nature;
- A walk-in business support facility at which businesses can rent time on computers, communications systems, and services (Business Technology Centers);
- An on-line data system to support business communications and information needs; and
- A fee-for-service structure which provides income to make the operations sustainable upon the withdrawal of NewBizNet support.

To accomplish this goal NewBizNet activities were organized into four components:

1. Strengthen existing local Business Support Centers (BSCs) which would, through their services, increase small and medium business' understanding of market principles and operations, and foster their use of modern, market-based business management principles. To achieve this, the BSCs provided technical assistance, training and education, information, research, an introduction to modern business practices, and other assistance in conducting business in a market economy. Assistance to BSCs was expected to result in self-sustaining institutions.
2. Create or assist existing Local Support Networks (LSNs) of business associations, business leaders, and local authorities to nurture a supportive local environment for private business operations. The LSNs were to lobby appropriate government organizations to create a regulatory environment favoring SME development. In addition, the LSNs would promote an understanding of market-based business principles and

operations by government authorities, which would help local government personnel to understand business needs.

3. Create a Business Information Network (BIN) linking national, regional, and international subscribers and facilitating their communication and exchange of ideas. The network also provided access to Internet, business information databases and resources, markets and marketing opportunities, business news, and other information.
4. Establish linkages and identify business resources available through other programs, other donors, PVOs/NGOs and other governments. This resource identification was intended to result in the business centers becoming resource centers for all business activities within their respective regions. As NewBizNet and USAID represent only a part of the various business support programs in Ukraine and Moldova, the business centers needed to develop linkages and identify the total resources available to SMEs, and provide referrals and points of contact for those programs.

In 1995 NewBizNet began activities by completing a competitive tender for the selection of BSC organizations. NewBizNet signed contracts and negotiated budgets in each location in September and October of 1995. By 1997 the project had five sites in Ukraine and Moldova. In Moldova there was a BSC in Chisinau and a satellite office in Balti. In Ukraine there were three BSCs: Odessa, Kharkiv and Lviv.

COMPONENT 1—EXPANDING THE SUPPLY OF SME SERVICE PROVIDERS IN UKRAINE AND MOLDOVA

The BSCs were operated by local service providers, subcontracted by the project to deliver three core types of fee-based business services: business training, business advisory services, and business information services. NewBizNet assisted its five BSCs towards becoming high-performance service providers through:

1. Providing direct *financial support* for key staff and facilities.
2. Providing *long-term advisors* at each site to provide overall strategic guidance and to assist in specific technical activities.
3. Upgrading *technology* through the installation of computer systems and other office equipment (Business Technology Centers).
4. Developing staff and management *training*.
5. *Information* assistance in the form of: printed and video material; computerized and indexed business data, market, vendor and supplier information; and indexed credit and financial resources (including sources of capital, profiles of the type of loans preferred by each bank or capital source, the loan information required, and profiles of successful applications).

By 1996, DAI began to provide *financial support* to the BSCs. NewBizNet financial support was in the form of direct payment for BSC rent, key staff, and certain operating expenses. The intent of this financial support was to cover the major portion of the costs associated with expanding services and programs. BSCs were given opportunities to test new services and update their equipment to improve service delivery and management capability. The expectation was that over time (estimated 1998), fee-based services would come to represent the major share of BSC activity, making it possible to gradually withdraw the NewBizNet financial support.

DAI placed a *long-term ex-pat advisor* at each site. These advisors worked directly with the BSC managers to assist them in conceptualizing and implementing new services. The advisors also monitored the expenditure of NewBizNet support funding by the BSCs and helped identify a fee-for-service structure.

Each BSC was provided *technology services* beginning with a Local Area Network (LAN). The LAN consisted of a File Server and five workstations. BSC staff used the equipment to assist clients with financial analysis, business planning, marketing, bookkeeping, communications, training, and other relevant services. The computer systems also contained software to assist the BSCs with client tracking and monitoring. By maintaining an active database on clients and contacts, the BSC was better able to organize its own business operations and to track the impact and quality of its services.

In addition, each BSC received a total of four weeks of *Advanced Business Skills Training* provided at their locations in order to enhance the level of staff skills and expertise. This assistance, provided by DAI's subsidiary Management Advisory Services (MAS), was a very practical program for solving problems typically encountered in small and medium-sized firms. It included participatory exercises and case studies, customized to the Ukraine/Moldova environment.

COMPONENT 2—DEVELOPING LOCAL SUPPORT NETWORKS IN UKRAINE AND MOLDOVA

The Local Support Network refers to the establishment of a local group of businesses and organizations that had common goals and/or business interests. A regional LSN typically included trade associations, industry support organizations, chambers of commerce, and groups of linked business, such as bankers and suppliers to a particular industry or region. The principal objective of the LSN was to engage in activities that could improve the economic policy environment in which businesses were operating.

The NewBizNet Project helped with the creation and development of the LSN in the following ways.

1. Established local advisory groups, LSNs, to address issues of SME development with local authorities. For example:

- In Moldova a number of LSNs were established in the northern regions that met regularly to discuss the local business environment;
 - In Lviv the BSC Director was instrumental in establishing the oblast advisory board for SMEs and establishing a local enterprise fund;
 - In Kharkiv the LSN persuaded local authorities to change street lighting for the local business district to be more supportive of business hours; and
 - In Odessa the LSN worked with the oblast government to establish a wholesale food market, and to encourage the government to donate a building for the market.
2. Sponsored regional seminars on Business - Government cooperation (particularly in Lviv, Kharkiv and Chisinau).
 3. Developed policy papers and provided technical specialists who assisted in defining policy issues and solutions to problems (e.g., Chisinau LSN developed an SME Development Concept Paper at the request of the Moldovan Office of the President).

COMPONENT 3—ESTABLISHING BUSINESS INFORMATION NETWORKS IN UKRAINE AND MOLDOVA

The business information component of the project had two primary objectives:

- The first objective was to serve the data and communication needs of the project offices/BSCs and selected LSN collaborators and to facilitate timely preparation of project tracking, financial and client reporting requirements.
- The second objective was to provide both electronic and hard copy marketing, financial, supply and product information/intelligence for SMEs through business centers, business associations, and other business services organizations.

The Business Information Network (BIN) began with installation of a communications hub in Kiev, later expanded to include satellite centers at BSC locations in Ukraine and Moldova. The Kiev hub was the primary source of information for the project's BIN, consisting of a central business library with business reference directories, CD-ROM databases, a list-serve and access to the Internet electronic mail system. Internet access allowed for expansion to other databases, some of which were available at no charge.

In 1996 and 1997, NewBizNet developed and installed a number of management information systems into the original BSCs (and which were later used at the five new BSC sites). By Phase 2 all ten NewBizNet sites were networked and an additional link was installed at the office of the State Committee of Ukraine for Entrepreneurship Development (SCED).

COMPONENT 4—ESTABLISHING REGIONAL LINKAGES

The primary responsibility for establishing regional linkages fell to the Kiev office, then called the Project Coordinating Center (PCC). The office gathered information and forged linkages with other USAID and donor projects, and disseminated this information to its BSCs via the project BIN. For example, NewBizNet staff participated in the inter-donor SME Working Group to share information on various projects and donor initiatives throughout the region. By 1997 the project was also working with both MBA Corp and Peace Corps volunteers, many of which were placed throughout the project BSCs. BSCs themselves generated information, which they shared via the BIN, on other projects that leased BSC space (such as USAID's land privatization and incubator projects), and activities in their region.

PHASE 1 RESULTS

A few of the highlights of DAI's efforts during NewBizNet's first phase (1995-1997), include:

- NewBizNet successfully facilitated growth in the supply of business advisory service (consulting) and business information services, with the BSCs together generating over \$100,000 in fee revenue for these two service groups;
- The combined BSCs generated over \$400,000 in fee revenue for business training services;
- DAI's subsidiary, MAS International Inc., trained a total of 24 trainers from the four centers in modern interactive training (including training of trainers—TOT) and certified them to deliver a “Business Management Skills” course, which the centers continued to deliver on a fee basis;
- Electronically linked the BSCs through a Lotus Notes-based computer network, a crucial step towards creation of a national business information network (BIN); and
- Provided each center with internet access, which helped BSCs to broaden services to include international information search, e-mail accounts, and web page development—services which were often cross-sold to existing consulting clients.

CHAPTER TWO

PRINCIPLE ACTIVITIES AND OUTCOMES (PHASE 2, 1997-1999)

PROJECT REVISED STRATEGY AND NEW APPROACH

NewBizNet's **Phase 2 (1997-1999)** began with a contract modification in October 1997. Considering NewBizNet's success in strengthening fee-paying business services markets in three regions of Ukraine and in Moldova, USAID decided not only to extend the project to 1999, but also to expand its scope to include:

1. Expansion of the Ukrainian BSC network into five new locations;
2. Direct support to Ukrainian regional business associations; and
3. Analytical and policy advisory services to the Government of Ukraine on SME and deregulation issues.

The additional activities with national policy makers and regional business associations reflected project experiences during Phase 1 as well as changes within the Government of Ukraine. NewBizNet-supported LSNs had an uneven track record, with their success overly dependent on the efforts of the local advisor or BSC Director. Associations participating in the LSNs showed themselves to be institutionally weak, incapable of effectively serving members and engaging government. And the project lacked a coordinated presence with the central government, in order to capitalize on the activities of the LSNs locally. At the same time, the government established the State Committee of Ukraine for Entrepreneurship Development (SCED), as the government body responsible for coordinating central government policies for SMEs.

In response to these conditions, at the national level NewBizNet began to work closely with SCED, through a combination of technical assistance by visiting Polish experts and hardware and infrastructure support of SCED's daily operations. The project also launched a network of regional business associations to build the capacity of grassroots organizations based outside of Kiev to lobby government. The business association program started with the identification of and work with four organizations, and was later expanded to include 10 associations.

COMPONENT 1—ENHANCING THE SUPPLY OF SME SERVICE PROVISION

Specific Activities and Accomplishments

To expand business development support activities to five new locations, NewBizNet drafted selection criteria for new BSCs based, in part, on the selection criteria for the original BSCs.

Key criteria included quality of personnel, strength of existing operation, and services provided. Since the new BSCs were only provided with a small subsidy for rent/operational costs, the BSC Director's salary and a minimal amount for automation equipment, DAI selected locations primarily on the basis of whether or not an operating BSC existed in the oblast. In particular, this meant identifying a TACIS, USAID, or indigenous BSC whose donor support had ended. In this way, NewBizNet capitalized on donor-funded development and training provided prior to the involvement of the Project.

Based on these criteria, the following oblasts were selected for evaluation: Poltava, Sumy, Lugansk, Donetsk, Zaparozhia, Luts'k, Rivne, Khmel'nitsky, Dnipropetrovsk, Kherson, Kirovograd, Mykolaiv, Chernihiv, and Crimea. The following factors were taken into consideration when evaluating the oblasts and BSCs:

City/Oblast

- Presence of new enterprises
- Privatized vs. Non-privatized
- Market activity
- New growth areas
- Commitment to SME development

BSC

- Infrastructure (e.g., office space, equipment, furniture)
- Personnel (e.g., expertise, commitment to SMEs, relationship with City/Oblast administrations)
- Core Competencies (e.g., training, business information, consulting)
- Historical/Potential Business
 - How successful has the business been in providing services?
 - Do they target a specific industry?
 - How large is the existing client base?
 - Can it sustain operations?
 - Can it be expanded?

On the basis of the above criteria, organizations in the following oblasts were selected to manage NewBizNet BSCs: Donetsk, Kherson, Mykolaiv, Rivne, and Zaparozhia. Business Skills work focused on building the professional skills of BSC management personnel to increase the BSCs' chances of achieving financial viability while serving the SME market. To support this goal, the project installed two management information systems, a client database and a financial management system, while gradually decreasing the level of financial support it provided through operating subsidies.

Although they, by design, received far less expatriate technical assistance and financial support than the original BSCs, the five newer centers were able to leverage NewBizNet's lessons learned through project promoted training programs, local and project-wide networking, and experience exchange. The newer and older centers also benefited significantly from technical expertise provided by on-site volunteers of MBA Enterprise Corps (Alliance) and Peace Corps starting in 1997.

Component 1 Results

Highlights of NewBizNet's business support assistance during Phase 2 include:

- Expanded the BSC network to 5 new BSCs in Ukraine by engaging local service providers in Donetsk, Kherson, Mykolaiv, Rivne and Zaparozhia;
- Further developed the skills and capacity of the four original BSCs, which generated more than \$300,000 in fee revenue while serving over 10,000 SME clients (October 1997 through September 1999);
- The five newer BSCs through September 1999 generated over \$170,000 in fee revenue while serving over 4,000 clients;
- By the time NewBizNet subsidies were discontinued in 1999, NewBizNet BSCs had:
 - Served 22,450 clients during FY97-FY99, including business advisory services, client training sessions, and individual packages of business related information supplied by the BSCs' BIN departments. 46 percent of the total 22,450 clients were women; and almost half of the BSC's clients returned for additional services;
 - Developed 217 business-plans and 128 marketing plans for SME sector businesses wishing to obtain credits;
 - Through the preparation of 29 business plans attracted a volume of credits amounting to \$8,143,000 for BSC clients;
 - Conducted 294 courses and seminars for about 10,600 entrepreneurs;
 - Completed more than 1,090 clients' applications for business information services; and
 - Provided business advisory services to about 1,970 entrepreneurs;
- Leveraged the skills and experience of the older BSCs by using work orders to fund three "institutional strengthening" TOT programs for newer BSC management on how to sell and deliver: sales management training, SME accounting services, and employment services; and
- Encouraged cross border cooperation and experience exchange with Poland through the following activities: (1) conducted Poland-Ukraine Cross Border Cooperation seminars in Lviv, Rivne and Odessa in November 1998 (organized in cooperation with Firma 2000, the Alliance and NewBizNet) and (2) sent 8 Ukrainian BSC staff to Warsaw, Poland for a TOT program "Introduction to the Business System," jointly developed by NewBizNet and Firma 2000.

COMPONENT 2—SUPPORTING BUSINESS ASSOCIATIONS

As the experience of NewBizNet's LSNs illustrated, business associations in Ukraine and Moldova were underdeveloped. They lacked a tradition of associations and, as a result, lacked knowledge regarding the mission and purpose of business associations. The associations in both countries are constrained by legislative obscurity as to their status and their (resulting) inability to collect fees for services. As a result, associations are limited in the options available to them for providing better member services and increasing their membership. In sum, Ukrainian and Moldovan business associations at that time could generally be classified as young, inadequately financed, and lacking a clear concept of "an association." They primarily focused on protection of membership rights, though their membership was often made up of a diverse group of entrepreneurs with few common industry or service interests.

Despite the unfavorable conditions for business association operations in both countries, USAID and NewBizNet determined that these organizations had the potential to play a more active role in economic development, especially for SME sector. By improving both the level and quality of member services, NewBizNet could assist business associations to eventually:

- Fill important information and service gaps existing in many areas, especially smaller cities;
- Contribute positively to the development of their members' business skills and competitiveness through improved services; and
- Gain increased confidence and credibility to represent their members' interests to government and public-at-large.

Business Association Selection Process

To identify associations with whom the project would work, NewBizNet initiated a selection process that began in mid-November 1997 and was completed by early February 1998. The selection criteria were designed to produce the best match between existing business associations in Ukraine and the goals of NewBizNet assistance. There were three levels in the selection process. First the association had to be a membership-based business association, which met the following requirements:

- Focused directly on small and medium enterprise activities and issues;
- Membership which is primarily, if not exclusively, small and medium enterprises or managers/employees of small or medium enterprises;
- Supported by dues or grants;

- Non-governmental organization without significant past or present dependency on or subordination to state structures;
- Operating for at least twelve months;
- Not aligned with any single political party or interested group; and
- Officially registered by state authorities.

Second, the project used a set of quantitative performance standards to rank associations, including:

- Increasing membership;
- Dues payments from most, if not all members;
- Board of directors selected, at least in part, from among the membership;
- Current, membership not less than 25 to 50 members;
- Regional focus and represent different regions of Ukraine; and
- A director or administrator who has demonstrated strong leadership skills and has worked with association for more than six months.

Finally, NewBizNet evaluated associations on the following criteria:

- Commitment and capacity of the association to enhance, as needed, democratization (a board of directors elected from amongst the membership), professionalism (a professional director and staff) and transparency (the openness of the organization's operations and management);
- Commitment and capacity to develop and execute programs and services for its members;
- Commitment and capacity to increase its membership and develop a stable financial operation supported primarily by members' dues; and
- Commitment and capacity to seek improvement in the SME business environment in Ukraine.

NewBizNet also attempted to ensure that the associations selected represented a diversity of types, sectors, membership and regions.

Approximately 90 potential associations were identified and evaluated according to the first set of criteria, the results of which reduced the pool to 19 associations. The next set of criteria was applied and this further culled the group to ten. These ten associations were evaluated

against the third set of criteria. However instead of identifying just four associations as required by the amended contract, NewBizNet decided that all ten associations from Kiev, Lviv, Kharkiv, Ternopil, Donetsk, Odessa and Mykolaiv were qualified to participate at the NewBizNet Business Associations Program.³

Specific Activities and Accomplishments

After identifying 10 associations for support, NewBizNet initiated formal technical assistance to each. NewBizNet efforts were mainly targeted at improving associations' abilities and skills for serving their members and representing their interests. This included providing operational subsidies and formal training, as well as conducting a membership survey to determine the needs assistance priorities for the association.

Operational subsidies. According to the law on non-governmental non-profit organizations, business associations have no opportunity to conduct any kind of economic activity to increase their funds. They are dependent only on membership dues and outside financing. During the period March 1998—November 1998, the selected business associations received approximately \$200 per month in NewBizNet financial support. The operational subsidy was directed to reducing the business associations' administrative expenditures, which then allowed them to use membership dues to improve the quality of services provided and/or increase the range of the services.

Formal training. To improve the management skills of the selected business associations, NewBizNet introduced association leadership to the basics in business association management and business association best practices at round tables. There were six round tables held in Kharkiv, Kiev, Rivne, and Odessa. The managers were trained in such issues as composing mission statements, identifying membership criteria, developing strategic goals and objectives, workplans, charter and by-laws. In addition, the roundtables provided an opportunity to get acquainted with similar organizations from other regions, to improve face-to-face communications and introduce the concept of business associations as business-like organizations.

Survey of association membership. The members of the ten selected associations were surveyed during a two-week period in October 1998. The survey was designed to identify membership interest in and perceptions of associations and the types of services they currently used or would like to have made available. The results of the surveys were used to identify specific NewBizNet assistance activities with the associations.

Though the project's work with the 10 initial associations was successful, the following problems still plagued other associations throughout Ukraine and Moldova:

³ The 10 initial business associations included: the Kiev Fruit and Vegetable Retailers Association; Association Women and Business of Donetsk; Kharkiv City Women's Foundation; Kharkiv Institute of Packaging Technologies; Donetsk City Rada of Entrepreneurs; Association of Realtors of Odessa; Odessa Transport Union Lviv Oblast Association of SMEs; League of Entrepreneurs of Ternopil Oblast; and Mykolaiv Agro-Industrial Fund for Support of Small and Medium Businesses and Farms.

- The abilities and potential of individual business associations were not well developed;
- Most individual business associations were not strong enough to solve the problems their members were facing; and
- There was little cooperation or exchange of information between existing business associations.

To address these constraints and have impact on a wider scale, NewBizNet expanded the project's Business Association Program to work with a larger number of associations in Ukraine and Moldova, eventually launching the Business Associations Network. Assistance through the Network still focused on strengthening individual associations' capacities, as well as improving their ability to work together.

Strengthening individual business associations. Effectively representing members' interests in a public-private dialogue starts with strong grassroots organizations, something both Ukraine and Moldova lacked. NewBizNet sponsored several strengthening activities to help associations develop improved member services and increase active membership. The activities were designed to increase membership by: improving the image and visibility of the association through publications; developing new information services; improving cooperation with local authorities; and providing specialized training programs for members.

For example, NewBizNet supported 4 regional business associations, which demonstrated a clearer understanding of the concept and principles of associations' best practices. Three of them were focused associations (on trade, packaging and real estates market) and the fourth association was selected because its wide focus unites entrepreneurs involved in different kinds of activity. NewBizNet assisted these associations to create new services that benefited their members, based on the results of their membership survey.

1. With NewBizNet support the Kiev Fruit and Vegetables Retailers Association conducted the Contest for the best shop of the year ("Golden Apple' 98"). The purpose of the contest was to build membership, promote the image of greengrocers, identify efficient techniques of fruit and vegetable sales, and create incentives for further improvement. The following results were achieved: membership increased by 30 percent; the image of greengroceries was improved and efficient fruit and vegetable sales techniques promoted; less successful shops were encouraged to improve their sales techniques; an analysis of vending opportunities for city fruits and vegetables shops was conducted; and cooperative relations with the city administration and mass media were established.
2. NewBizNet assisted the Association of Realtors of Odessa and Odessa Oblast to create a common information database of real estate and realtors in the Odessa oblast. The purpose of this project was to improve information exchange between realtors, make information easily accessible, and promote the activities of the association by offering a new member service. As a result, a database of real estate and realtors in the oblast, as well as the Association's Web page, were created. This activity resulted in radically

improving the image of the Association with the public-at-large and significantly increasing the Association's membership (40 percent). By using modern technology, members of the Association are able to serve their clients more professionally, which positively impacts their image and, consequently, that of the Association. The increase in the Association's membership makes the Association stronger financially and enables it to maintain the Web page on its own.

3. The Kharkiv Institute of Packaging Technologies (KIPT) published a magazine on packaging. The association's members required information about the packaging technologies market. The association was able to respond by circulating "Questions-and-Answers" and analytical reports, informing their members about goods and services available in the market (elements of packaging technologies), their quality and pricing, etc.
4. The Lviv Oblast Association of SMEs chose to prepare a local bylaw to increase the transparency of state procurement procedures. The purpose of this activity was to create a permanent working group consisting of the representatives of the Associations and local authorities in order to resolve various issues related to member interests. The association worked with local authorities to successfully revise the procurement process, and disseminated information on those changes through a brochure developed by the association.



Strengthening business associations' ability to work together on a larger scale: The NewBizNet Business Association Network. The Business Network was launched to enable associations and their members to better understand the concept of an "association." The Network provided access to information that enhanced the value of membership, increased access to policy makers, and improved cooperation and exchange of information between existing associations in Ukraine and Moldova. The Business Associations Network facilitated an information exchange between its participants through 3 main components: publications, Internet communication and face-to-face activities.

Publications. Through the newsletter *Business Associations News*, later renamed *BizNet News*, NewBizNet collected and disseminated information regarding associations and their activities; business information; relevant articles, reports and other informational materials. Associations could then pass along this information to their members. There have been 13 issues of the newsletter.

INTERNET communication. The Network database and the project website were designed to: facilitate the flow of information and dialogue between participating associations; provide information about associations and their activities; encourage associations to exchange ideas, experiences, progress and problems; and provide access to other relevant information sources.

Face-to-face activities. A series of activities such as round tables and conferences were designed to provide personal contacts among association participants, experts, business leader, policy makers and associations from other countries. These activities increased the awareness of associations and policy makers to related entrepreneurial issues, problems and opportunities; improve participants understanding of association concepts, including advocacy; and act as a catalysis for ongoing information exchange.

During this period, the primary face-to-face activities of the Network were the following: regional conferences, national conferences, and study tours. For example, during January and February 1999 NewBizNet hosted eight roundtables to launch the Business Association Network. The roundtables were held in Kharkiv, Donetsk, Lviv, Rivne, Mykolaiv, Kherson, Odessa, and Kiev and conducted with the assistance of NewBizNet BSCs. All known associations in each area (local, regional, and national) were invited to attend the presentations and to participate in the Network. As a direct result of these round table meetings, 48 business associations joined the NewBizNet Business Associations Network.

Later that spring (April 1999) NewBizNet hosted three regional business association conferences “Communication. Cooperation. Collaboration.” The first conference took place in Kharkiv on the 15th of April, 1999. On the 20th of April, 1999 the second regional conference in Odessa was held. The third, and last regional business associations conference was conducted in Lviv on the 4th of May, 1999.

In Moldova NewBizNet hosted the first national SME conference for entrepreneurs, government and associations. With over 300 people in attendance, this provided associations an excellent opportunity to exchange information and network with entrepreneurs and government.

Component 2 Results

Highlights during this period include:

- Initially selected ten business associations for formal technical assistance from 7 cities of Ukraine: Donetsk, Kharkiv, Kiev, Lviv, Mykolaiv, Odessa, Ternopil;
- Conducted training programs on business association management basics with the initial 10 associations;
- Held six round tables for business association training;
- Designed programs addressing the needs of individual associations;
- Completed member-surveys;
- Launched Business Associations Network with 48 associations from Ukraine and Moldova;
- Published Newsletter on regular basis;
- Created and maintained business associations' website;
- Organized eight round tables in Kharkiv, Donetsk, Odessa, Rivne, Lviv, Kherson, Mikolaiv, Kiev;
- Organized and funded the first national SME conference in Moldova with over 300 participants;
- Held three regional conferences in 1999 to discuss ways for business associations to improve communication and collaboration with national government and other national and international organizations;
- Created and regularly updated the Directory of Business Associations Network participants; and
- Used work orders to match associations' own funding for four strengthening activities:
 - Conduct the first annual Golden Apple Contest to recognize outstanding retailers (*Kiev Fruit and Vegetable Retailer Association*);
 - Create an Odessa real estate database (*Realtors Association of Odessa*);
 - Publish bulletin on how to participate in government tenders (*Lviv Oblast Association of Small and Medium Entrepreneurship*); and
 - Publish a new trade journal to promote the packaging industry and attract members to the association (*Kharkiv Packaging Technologies Institute*).

COMPONENT 3—SUPPORTING THE GOU ON SME DEVELOPMENT

Specific Activities and Accomplishments

During Phase 2 the project focused its policy work at the national level with the State Committee of Ukraine for Entrepreneurship Development and, to a lesser extent, the Ministry of Economy and Cabinet of Ministers. Technical assistance was largely provided by Polish short-term advisors as well as by NewBizNet Ukrainian staff. Assistance included two primary activities: providing computer equipment to SCED for a connection to the project's information resources and the Internet; and providing specific analyses of the SME sector in Ukraine.

In August and September of 1998 the project provided equipment to the SCED offices to allow them to connect to the project's information resources—including the website, the list-serve, the database of associations, and legislative information. The equipment provided SCED with access to the Internet, and the various legislative databases available on-line.

The project also provided targeted technical analyses of various SME related issues. In January of 1998 NewBizNet provided SCED with a report on SME financing and recommendations for changes to the Ukrainian system. The project also conducted two different analyses of barriers to enterprise development and an analysis of the various laws affecting business operations.

Beyond technical analyses, the project responded to SCED's interest in SME strategies adopted by neighboring countries by organizing a study-tour to Poland for government officials in 1998 and a second to Moscow in October of that year, in both cases to examine different models for SME development. During the summer of 1999 SCED officials, along with regional administrative officials, traveled to the US to witness innovative public-private partnerships to economic development.

In addition, the project helped SCED to fund its national newsletter and funded the SCED national SME conference in Kiev in November of 1998 ("National Congress on Entrepreneurship Development"), with over 100 participants.

During this time NewBizNet helped SCED to develop its regional activities by sponsoring two regional conferences: an SME conference in Zhitomir in February of 1998 and a second in Lviv during March of 1998.

Component 3 Results

During Phase 2 the project successfully established a cooperative partnership with the Government of Ukraine at the central level, particularly through SCED. This relationship would prove fruitful in the following year (Phase 3) and serve as a good foundation from

which to launch various SME initiatives. Highlights of policy assistance during Phase 2 include:

- Provided technical analyses of barriers to enterprise development as well as the microfinance system in Ukraine;
- Organized 4 study tours: Poland (one for SCED and one for BSC directors), Moscow and the United States for Ukrainian government officials;
- Procured computer equipment and connected the SCED to NewBizNet's business information network, including providing internet access;
- Provided funding and technical support for an SME conference in Zhitomer and Lviv in 1998;
- Organized and funded a national conference with SCED in Ukraine in 1998; and
- Organized and funded a National SME Conference in Moldova in April 1999.

CHAPTER THREE

PRINCIPLE ACTIVITIES AND OUTCOMES (PHASE 3, 1999-2000)

PROJECT REVISED STRATEGY AND NEW APPROACH (PHASE 3)

Phase 3 (1999-2000) was initiated with a second major amendment to the contract SOW and extension signed in September 1999. The third phase reflects the following:

1. Changing attitudes regarding business development services away from a strictly supply-side focus and towards a more demand-driven approach. Activities with business service providers (not just the original BSCs) were designed to stimulate market demand for their services through innovative tools such as vouchers, while continuing support to business service providers through more targeted, results driven interventions (work orders).
2. A new focus on generating concrete and current information on the SME sector which could be used to inform the policy dialogue process and to acquire this information, where possible, through the activities of associations in order to equip them with improved advocacy tools.
3. A sustained effort to expand the reach of the Business Association Network, now renamed the Business Network, to: 1) include all organizations active in SME development such as associations, business support centers, training centers, and consulting firms, and 2) assist its members to become more effective advocates and to provide improved member services through the use of training, study tours, conferences, newsletters, and roundtables.

COMPONENT 1—BUILDING A MARKET FOR SME SERVICES

As direct operational subsidies to NewBizNet BSCs were ending in 1999, USAID and NewBizNet began to evaluate the progress made in developing a business support industry in Ukraine and Moldova. As the result of a strictly supply-side approach adopted during project design, NewBizNet had successfully built up the supply of high-quality, professional, business support services. What remained to be seen, however, was the extent to which the providers (not only NewBizNet's, but also those of other donors and local organizations) could compete against each other for their customers' business—a competition that would lead to product innovation, better quality and lower prices for entrepreneurs. The project began to experiment with vouchers as a tool for stimulating market demand and competition—a tool used successfully by DAI in Brazil and by the Inter-American Development Bank throughout Latin America. At the same time, the project wanted to continue to assist providers to respond to the new requirements brought on by competition, but in a more targeted, and results driven manner than had been allowed by operational subsidies. As a result, the project initiated a number of work orders with business service providers.

Vouchers—Stimulating Demand for Business Services

In May of 1999 NewBizNet developed and successfully tested a voucher program to facilitate the delivery of training services to target groups of SMEs. The vouchers (discount coupons) were distributed to SMEs to purchase commercially available training services. A number of providers accepted the vouchers and offered a variety of courses at a wide range of prices, which offered SMEs a substantial choice of the types of training they could purchase. Since the voucher covered anywhere from less than 40 percent to 75 percent of the cost of training, SMEs had to expend some of their own funds in order to benefit from the program.

The program included at least 4 providers in a city. In each city an association was selected to be the Voucher Administrator and oversee the distribution and collection of the vouchers, and monitor their usage. The following associations (all members of the Network) administered the NewBizNet voucher program:

- Association of Trade and Public Catering Employers of Lviv Region, Lviv;
- Association of Protection and Promotion of Entrepreneurs Development, Rivne;
- Association of Canteen Enterprises of Zaporozhia Oblast, Zaporozhia;
- Ukrainian Industrial Association “Gran”, Vinnitsa;
- SME Union of Odessa Economic Region, Odessa;
- Association of Women in Business, Khmelnytsky;
- Association of Legal Protection of Entrepreneurs’ Rights, Kherson;
- Prydniprovsk Association of Entrepreneurial Business Collaboration, Dnipropetrovsk; and
- Entrepreneurs’ Union of Sumy Oblast, Sumy.

As part of their responsibility, the association also signed Memorandums of Understanding (MOUs) with the local training providers to affirm the providers’ willingness to accept the vouchers as a form of payment. By structuring much of the responsibility for overseeing the providers at the local level, the program supports the on-going efforts to facilitate greater cooperation and network building between service providers and associations in the region. The added benefit of using an association was that it could provide the vouchers to its members as well as be required to market the program to non-members. In the NewBizNet program associations had to target a narrow audience—SMEs that had less than 100 employees, women (at least 50 percent of participants) and no more than 40 percent from the administrator’s membership.

Based on the pilot voucher program successfully tested in Lviv and Rivne in June-August 1999, NewBizNet expanded this activity and launched in November 1999-February 2000 a similar program in other cities of Ukraine: Odessa, Vinnitsa, Khmelnytsky, Kherson, Zaporozhia, Dnipropetrovsk, and Sumy. The number of vouchers was limited to 350 during the pilot and to 1225 during the expanded program, or 1,575 vouchers total. The value of vouchers depended on prices for training courses in each city and varied from 80 UAH in Rivne and Vinnitsa to 120 UAH in Odessa and Zaporozhia. Program statistics include:

- 1575 entrepreneurs, representing 1,229 SMEs, trained in during the voucher program;
- 347 members of associations, or 22 percent from the total number of trainees, attended the training;
- 224 new members joined the associations;
- Women constituted 66.1 percent or 1,041 individuals from the total number of participants;
- The person training hours equaled 22,121 in the pilot program and 39,741 in the follow-up; and
- An average voucher program cost to train one voucher holder is \$27 (or \$0.45 per one training hour in the pilot program and \$0.81 in the follow-up).

Through the voucher program, business associations established relations with the 32 participating service providers that extended beyond the scope of the voucher activity. For example:

- Vinnitsa Association “Gran” worked together with service providers to develop further business training programs for SMEs;
- In Rivne, “Business Relations Center,” one of providers, submitted to the association administering the program a range of new training courses for consideration. These new training courses incorporated suggestions of trainees given in the voucher training program. Also, the association and service provider jointly created a training class for entrepreneurs and an educational program, “Woman and Business;”
- At the request of Zaporozhia Association of Canteen Enterprises, “SMEDA” BSC developed a business plan for the association member, “Novonikolaevsky Foodstuffs Factory”, with the purpose of obtaining credit; and
- In Dnipropetrovsk all the 6 business service providers that participated in the program became members of Prydniprovsk Association of Entrepreneurial Business Collaboration. The Association solicited the service providers’ agreement to provide a 10 percent discount for training services offered to the Association’s members.

It is noteworthy that there was either an IFC or a NewBizNet BSC in every location of the voucher program implementation. NewBizNet BSCs participated in Lviv, Rivne, Odessa, Zaporozhia and Kherson. IFC BSCs participated in Sumy, Vinnitsa and Dnipropetrovsk. Both IFC and BKH Fund BSCs participated in Khmelnytsky. The number of the voucher holders trained in BSCs is as follows:

- Kherson BSC—155 voucher holders, or 86.1 percent of the total number of trainees;
- Khmelnytsky BSC—183 voucher holders, or 81.4 percent of the total number of trainees;

- Lviv BSC - 136 voucher holders, or 68 percent of the total number of trainees;
- Zaporozhia BSC—57 voucher holders, or 34 percent of the total number of trainees;
- Vinnitsa BSC—28 voucher holders, or 26 percent of the total number of trainees;
- Rivne BSC—38 voucher holders, or 25 percent of the total number of trainees; and
- Odessa BSC—58 voucher holders, or 23 percent of the total number of trainees.

As a result, from the total amount of 1,575 voucher holders, 655, or 41.6 percent attended training offered by the BSCs. The table below demonstrates the demand by topics.

NewBizNet Voucher Program

Subject Matter	# of Courses	# and percent Vouchers
Business Skills—Strategic Management, SME Management, Marketing and Advertising, Business Planning, Active Sales Techniques, Attracting Investments, Intellectual Property, Legal Protection of Entrepreneurs, etc.	47	624 / 39.6 percent
Accounting—International Standards of Accounting, 1-C Accounting	34	458 / 29.1 percent
PC user Computer Training	60	392 / 24.9 percent
Other	18	101 / 6.4 percent
Total	159	1575 / 100 percent

Work Orders—Targeted Supply-Side Interventions

The NewBizNet work order program was designed to increase the flow of services to targeted groups of SME service providers and SMEs. Initiated during the last year of NewBizNet, the objective of the five month program was to test several approaches of identifying, developing and implementing work orders to determine how to best to facilitate the delivery of “sustainable” services to SMEs throughout the region. In the course of NewBizNet's program work orders were implemented primarily by Business Support Centers and business associations, but also by other institutions such as a research center in Moldova.

NewBizNet work orders were for a duration of one week to three months and a cost of less than \$25,000. The price paid for each work order went mostly towards offsetting the cost of providing the service with a reasonable profit to the service provider. In all cases, some kind of financial or in-kind contribution (such as covering the travel expenses for training of training courses) was required from the service recipients in each work order in an attempt to reduce market distortions and foster a future market for the services.

Ideas for work order activities were generated by USAID and NewBizNet as well as solicited from the business centers and business associations in the Network. In most cases the work order was awarded to the party that designed or submitted the proposal (termed a "sole-source" award), although two competitive tenders were conducted. Below are some key summary statistics that demonstrate the wide range of services and the extensive reach of the Work Order Program.

Total Number of Work Order Proposals	72
Number of work order proposals submitted by BSCs	50
Number of proposals developed by NewBizNet	22
Number of work orders awarded and implemented (by type of service provided)	21
Training at the service provider level (institutional strengthening)	4
Services delivered at the firm/entrepreneur level	4
Other Services (conferences/surveys)	7
To Associations (strengthening)	4
Associations (training-voucher program)	2
Number of work orders awarded and implemented (by geographic distribution)	22*
Donetsk	1
Kharkiv	2
Kherson	1
Kiev	2
Lviv	6
Odessa	4
Rivne	1
Moldova	4

* Total in geographic distribution equals 22 rather than 21, due to double counting WO 003 implemented jointly by the Lviv and Odessa BSCs.

Total Cost of Work Orders Awarded	\$106, 244
To BSCs	\$61,783
To Associations	\$40,780
To Other Service Providers	\$ 3,861

The NewBizNet Work Order Program demonstrated that in a relatively short period of time it was possible to facilitate delivery of a wide range of services aimed at supporting SMEs throughout Ukraine. Because work orders are a “supply-side” tool, the strength of any work order program is found in the ability of the participants to identify programs which are potentially in demand and which may be commercialized in the future.

Potentially, one of the most successful work orders implemented by NewBizNet is the Marketing Assistance Program (MAP) in Kharkiv. This program was jointly implemented by three USAID projects: NewBizNet; the Alliance for Collaboration on Enterprise Development (the Alliance); and the Business Incubator Development project (BID). The purpose of the work order was to implement a marketing training program for SMEs. This work culminated in the production of a thousand CD-ROM by the Kharkiv BSC in August 2000. The CD-ROM contained success stories of the MAP program and information on the local, participating firms.

Component 1 Results

- Voucher program implemented in nine cities, distributing a total of 1,575 vouchers;
- Introduced a “work order” system to fund 21 SME support activities in 7 regions of Ukraine over the five-month period May-September 1999;

- Using work orders, NewBizNet funded four “firm-level” activities: distance learning training in how to start and manage a business; a similar training program targeting economically disadvantaged women entrepreneurs in the Gagauzia region of Moldova; development of a computer simulation game for use in an SME training course “Modern Marketing; and a series of three SME Role Model round tables for entrepreneurs in Kherson. Participants in each program paid at least a symbolic fee;
- Participated in the design and implementation of the Kharkiv Marketing Assistance Program (MAP), a cooperative effort between NewBizNet, the Alliance, the Business Incubator Development (BID) project, and USAID to provide free marketing skills training to 2,000 employees of over 600 Kharkiv SMEs from 10 key sectors of the economy;
- Provided company specific consultations to 100 MAP companies (10 from each of the 10 program sectors) identified as leaders using project designed marketing audit workbooks and local marketing experts’ recommendations. Completed workbook reports were delivered to Alliance volunteers/industry experts to use as background information prior to visiting selected companies to provide further technical assistance; and
- In cooperation with the Kharkiv and Lviv BSCs and the Kiev International Management Institute, NewBizNet developed a set of 9 marketing training modules utilizing sector specific examples/case studies and a marketing audit workbook for MAP, all of which are now available to USAID as “off-the shelf” training materials. The MAP training module “Introduction to Marketing” is available as a training video and in an interactive CD-ROM version that contains additional MAP information and a marketing glossary.

COMPONENT 2—SUPPORT SME OPERATING ENVIRONMENT

PIMS General Overview

In September of 1999 NewBizNet implemented PIMS, a Policy Implementation/Impact Monitoring System. The purpose of PIMS was to provide feedback to SCED and other government bodies on the effective implementation of decrees and legislative measures to improve the environment for SME development in Ukraine. PIMS includes a (1) hotline system in 15 oblasts in Ukraine and 2 cities in Moldova, (2) a series of surveys to determine the impact of selected legislation or other government actions affecting SMEs; and (3) regional public hearings. To insure that the information developed through PIMS reached those who need it, NewBizNet also (4) improved linkages with other projects and donors through a PIMS Working Group and with critical government agencies and bodies, and provided short-term technical support to improve the capacity of the Ukrainian government to support SMEs.

Hotlines

The NewBizNet hotline activity was designed to:

- Provide quick information assistance to entrepreneurs in the regions;
- Obtain feedback from entrepreneurs, highlighting the most critical constraints to SME development in Ukraine;
- Collect information on the inconsistencies and contradictions of current legislation; and
- Assist regional associations to build a constructive dialogue with authorities based on hotline data, thus improving their advocacy skills and attracting new members.

In October-November 1999 NewBizNet identified 15 regional business associations from among its Business Network. One of the selection criteria was the association's willingness to participate in the hotline scheme. Another important criteria was whether the association had cultivated (or was interested in doing so) favorable relations between business association and the city and/or oblast authorities. In addition, business association needed to be able to advertise their own hotline. Based on these criteria, hotlines were placed in the following cities: Rivne, Lviv, Ternopil, Kiev, Chernigiv, Vinnitsya, Ivano-Frankivsk, Kremenchuk, Donetsk, Dnipropetrovsk, Kharkiv, Odessa, Mykolaiv, Kherson, and Cherkasy.

NewBizNet organized a training session in Kiev for the 15 selected hotline operators in October-November 1999. The training included instructions on the procedures for taking and recording calls, as well as information sources on policy reform and business support activities. Representatives of the State Tax Administration, Ministry of Ukraine on Standardization, Metrology, and Certification, The Committee of Ukraine for Consumer Rights Protection, Licensing Chamber of Ukraine, SCED, independent think-tanks and analytical groups, lawyers, economists and accountants contributed to the training.

Each operator was provided with his/her own computer, printer, telephone/fax, answering machine, and access to a legislative database. The operators record calls received (and responses given) into a database designed by NewBizNet, which not only eases the reporting burden but also allows them to see the calls received and responses given in other regions. On a monthly basis the hotline operators gather in the Kiev NewBizNet office to participate in refresher training seminars. The seminars are an opportunity to share information regarding the calls received in the past month, to identify areas for further clarification, and to review recent legislative changes.

The associations advertised the hotline in their local communities, and were provided training on marketing this new service to members and non-members at the initial Kiev-based training. In addition to traditional methods of advertising campaigns (radio, TV, press) business associations used such methods as: distribution of information leaflets, e-mailing information to entrepreneurs, announcements at local markets, agreements with "Ukrpage"

company on pager advertisement, and regular mail. NewBizNet also promoted the hotline activity in its publications, including its website, SCED publications, and BizNet News.

As of June 1, 2000, the NewBizNet Hotlines received approximately 12,000 calls. Approximately 38 percent of these calls related to SME taxation issues, 22 percent - economic activity of small and medium enterprises, and 10 percent - creation of businesses. The most frequently asked questions related to tax accounting and legislation, licensing, and inadequacies in legislation regulating SMEs.

Of the calls received, approximately 80 percent were from micro and small enterprises. Approximately 25 percent of the calls came from residents of oblast districts (outside the oblast capital, where the hotline was located). Fifty percent of the hotline clients were women. In some oblasts, such as Vinnytsya, Rivne, and Lviv over 70 percent of the callers were women.

As a result of the hotline activity and aggressive marketing campaigns, participating associations have developed a strong public image among entrepreneurs and have gained their confidence. In many associations the membership grew 15-20 percent as a direct result of the hotline activity. In order to promote the hotlines, business associations held meetings with representatives of local authorities, entrepreneurs, and controlling bodies. As a result, some of them started common projects within the framework of the hotline activity. For example:

- In some cities (such as Lviv) SCRPE⁴ Ombudsmen cooperated intensively with the associations on the hotline activity, which increased the operator's understanding of local regulatory changes (and the Ombudsman's understanding of regulatory constraints);
- In Donetsk the association and state authorities agreed that two tax inspectors would work with the hotline to address tax related questions, as most of their callers are self-employed or from small enterprises that cannot afford the services of a lawyer or accountant;
- In Ivano-Frankivsk the city council finally cancelled one of its resolutions which had been in violation of a Presidential Decree (regarding the 'entire' tax filing system) as a result of the large number of calls received on the issue; and
- In Kiev the association held a special roundtable together with the International Center for Policy Studies and the Analytic and Expert Coordination Council on the simplified tax system, as a result of the large number of calls received by the hotline on that issue.

The project also initiated two hotlines in Moldova, one in Chisinau and one in Balti. The results have been similar though, not surprisingly, the Moldovan hotlines are almost exclusively used by microentrepreneurs (92 percent).

⁴ During the spring of 2000 SCED was re-organized and officially renamed as the State Committee of Ukraine for Regulatory Policy and Entrepreneurship (SCRPE).

The Balti hotline, managed by the Association of Professional Accountants and Auditors of Moldova has forged strong ties to the regional branch of the Ministry of Economy and Reform and with the local authorities. As a result of the number of calls regarding inspections, the association and authorities agreed to explore establishing a system of inspection registers at each business, similar to that in Ukraine. The authorities polled the local enterprises, and on the basis of their support submitted a resolution to the local administrative council, which approved the motion unanimously to permit the use of inspection registers. In Chisinau the association, Women in Business, has also established a productive partnership with local authorities. Working together with the municipal Economic Department, the association is helping to create a database of regulatory constraints using hotline information.

Legislative Implementation Surveys

Collecting feedback from entrepreneurs through business associations provides critical information to SCRPE and other government bodies on the effectiveness of SME reforms. While the hotlines provide important anecdotal evidence of the inadequacies of a particular law or its inconsistent implementation, a more methodologically sophisticated process is required to move the dialogue towards more concrete findings.

To address this need for more solid data on the implementation of reforms, NewBizNet conducted five surveys of various pieces of key legislation—legislation that was intended to have a significant impact on SME operations. The project initiated PIMS Working Group meetings to guide the survey process. The meetings were attended by representatives of the World Bank, USAID, IFC, other donor organizations and independent Ukrainian analytical groups.

During the period November—December 1999 the Working Group selected the five pieces of legislation and subcontracted the International Center for Policy Studies to collect the data. Specifically, the five surveys focused on:

- Presidential Decree “On Certain De-Regulatory Measures for Business Activities” (23.07.98);
- Law of Ukraine #643-XIV “On Stamp Duty” (12.05.99);
- Law of Ukraine “On Amendments to the Law of Ukraine ‘On Corporate Tax’ ” (03.06.99);
- Presidential Decree “On the Simplified System of Taxation, Accounting and Reporting for Enterprises” (03.07.98) including amendments of 28.06.99; and
- Presidential Decree “On State Support of Small Entrepreneurship” (12.05.98).

Interviews were conducted of 2200 small and medium enterprises in 11 oblasts: Lviv, Kiev, Kharkiv, Odessa, Chernihiv, Dnipropetrovsk, Donetsk, Luhansk, Kherson, Ivano-Frankivsk and Crimea.

According to the results of the Legislation Implementation Surveys, only the Law of Ukraine “On Stamp Duty” could be considered properly implemented, and then only after several months of violation. As for other legislative acts, the following factors were observed:

- Violation of the standards of legislative acts (Law “On Amendments to the Law of Ukraine “On Corporate Tax”, Presidential Decree “On Certain Deregulatory Measures for Business Activities”);
- Failure to implement some provisions due to unclear standards of the legislative acts (wording of the Decree “On the Simplified System of Taxation, Accounting and Reporting”); and
- Failure to implement some provisions due to the absence of implementation mechanisms described in the documents (Presidential Decree “On State Support of Small Entrepreneurship”).

Public Hearings

In November-December 1999 NewBizNet, in collaboration with Ukrainian think-tank Institute of Reforms, launched a regional public hearing program to initiate and facilitate a public-private dialog between entrepreneurs, government, and associations at the regional level. The public hearings were based on the subject “What Is the Role of Government in Private Business?” and held in Ternopil, Chernihiv and Kherson. The objectives of the hearings were:

- To provide entrepreneurs and associations with a forum for expressing their concerns and proposals to government authorities regarding the business environment and to receive immediate explanations and feedback;
- To promote the idea of public debates of specific issues related to business development to ensure effective and transparent public-private dialogue;
- To help associations enhance their image as an advocate for business; and
- To receive feedback from entrepreneurs on the status of the deregulation status in their regions and proposals as for more effective mechanisms and/or implementation procedures in the area of deregulation.

Each of the sessions was structured as follows. First the experts and the government officials presented the main concepts. This followed with an open discussion where both businessmen and government officials could express their opinions, ask questions to each other and the

experts and make proposals. Both the Director of the Institute of Reform and the Director of the hosting business association moderated the hearings.

The proposal developed by the participants of the public hearings were summarized in the materials published and submitted to the Verhovna Rada, other think-tanks and relevant government agencies for consideration.

One of the most beneficial outcomes of the hearings was that the public-private dialogue initiated at the hearings continued after its completion. For example, in Chernihiv participants at the hearing agreed to organize (on their own) additional public hearings to discuss taxation and budget revenues, and land reform. In Kherson the businessmen proposed and the representatives of the oblast administration fully supported the idea of holding a round table on “government—business—public” following the NewBizNet hearing.

The associations (all participants in the NewBizNet Business Network) were responsible for handling the organization and logistics for each hearing. This attracted and concentrated the attention of all the participants on the associations. The advertising campaign for the public hearings naturally included promotion of the association’s other activities, and they distributed promotional/advertising materials with the regular package at the hearings. In Chernihiv, for example, some of the association’s members who participated in the event sent out appeals to their business partners to join the association. The Chernihiv Guild of Entrepreneurs also reported an increase in the collection of membership fees of existing members as a result of the public hearings.

In August and September, 2000, NewBizNet again used the public hearing mechanisms in support of specific, project-supported policy reform, in this case a draft microfinance law (see “*Support to Policy Makers*”, below). During the last two months of the project NewBizNet staff organized 12 public hearings throughout the country, as well as a final public hearing in Kiev⁵. In each case, the project identified a local business association or business center to host and moderate the hearing, and provided training for each of the 12 associations and five regional ‘coordinators’. The hearings were open to the public, and special invitations were sent to members of the local media, local members of parliament and local/regional government, and business leaders in the community. The hearings provided a unique opportunity for the MicroFinance Working Group to test their ideas with the business community, and for the public to provide clear feedback and input into the legislative development process.

Support to Policy-Makers

To make the most use of the information being collected through hotlines, surveys, and the public hearings, it was necessary to maintain and expand contacts with key officials engaged in SME policy reform. Building on the successful relationship the project built with SCRPE

⁵ The public hearings were held in Rivne, Lviv, Uzhorod, Khmelnytsky, Odesa, Simferopol, Zaporizhia, Donetsk, Chernihiv, Kremenchug, Dnipropetrovsk, Kharkiv, and Kiev.

during Phase 2, NewBizNet expanded that to include substantial assistance to the Cabinet of Ministers. This was particularly critical as, following the elections in November of 1999, the Cabinet of Ministers became the primary force for SME reform within the government.

Based on the findings of the PIMS activities, NewBizNet staff worked to identify key junctures in the political dialogue and inject PIMS findings into the dialogue. Work with the two main government bodies (SCRPE and the Cabinet of Ministers) includes the following.

Cabinet of Ministers of Ukraine (CMU). As a result of the administrative reform in the Cabinet of Ministers, a Governmental Committee was created at the office of each Prime Minister, one of which was the Governmental Committee on Economic Issues headed by Yuri Yekhanurov. As a result of this reform the decision-making process at CMU was simplified; each Governmental Committee was authorized to consider the issues within its competence and present proposals for consideration at CMU meetings.

In response to the request of Yuri Yekhanurov, a Group of Advisors was created at the Governmental Committee on Economic Issues. The Group was comprised of representatives of donor organizations, including the NewBizNet Policy Coordinator. The Group of Advisors developed: Draft Regulations of CMU “On the Council of Entrepreneurial Unions at the Governmental Committee on Economic Issues,” “On the Order of CMU Work,” “On Approval of the Order of Regulatory Acts’ Development,” Draft Law of Ukraine “Program of CMU Activity,” “On Fundamentals of the State Regulatory Policy in Entrepreneurship,” “On Licensing of Certain Entrepreneurial Activities,” “On Registration of Enterprises,” “National Program of Support and Development of Small Entrepreneurship in Ukraine for 2000-2001,” “On Legislative Activity in Ukraine,” etc.

SCRPE. NewBizNet specialists provided assistance to the Committee in the development of draft legislative acts, such as the National Program of Small Entrepreneurship Development for 2000-2001, coordinated issues of interaction with entrepreneurial structures, and provided assistance to Committee representatives in international conferences, seminars and public activities organized by NewBizNet.

On January 25, 2000, NewBizNet Project organized a press conference for SCRPE to present the findings of USAID’s SME Baseline Survey in Ukraine, which provided in-depth information on the current status of small and medium sized business in Ukraine. There were eighty-five participants present, including several high-ranking government officials.

The event was also attended by the representatives of independent think tanks, leaders of eight national business associations and foreign donor organizations. The event was highlighted by 36 Ukrainian newspapers, four radio stations, nine TV stations as well as eight foreign or English speaking mass media (Eastern Economist and Reuters among them). Total number of mass-media representatives present at the press conference was seventy-two.

In June and July 2000 NewBizNet sponsored a second set of research taken from the data collected during the SME Baseline Survey in Ukraine. Working again with the Kiev International Institute of Sociology, NewBizNet provided USAID with two additional, in-

depth reports: Women and Entrepreneurship; and The Informal Sector in Ukraine. Both reports provide a more detailed analysis of the situation in Ukraine using the 1999 data, and interesting comparisons with neighboring countries.

MicroFinance Law. NewBizNet also supported the creation of a Working Group on Microfinance headed by the First Deputy Head of SCRPE. The Working Group included representatives of other projects, independent lawyers of the Kharkiv Legal Academy (who developed the first Draft Law for discussions), business associations, credit unions, the Institute of Reform and Cabinet of Ministers.

As a result of several months of work, the Working Group developed the Draft Law of Ukraine “On Supportive Microfinance.” The Draft Law was sent to Yuri Yekhanurov and sent on for further review by SCRPE, the full CMU and the National Bank of Ukraine. Each of those institutions accepted the principal concepts incorporated in the draft law and offered their support to the draft document. The Council of Entrepreneurial Unions of the Cabinet of Ministers approved the draft on June 22nd. Mr. S. Tyhipko made a commitment to register the draft as one of his own legislative initiatives in the Verhovna Rada in September 2000.

The Draft Law will help to create a non-governmental, nonprofit, non-banking microfinance institution in Ukraine. The simplified mechanism of microfinance is intended to make crediting procedures transparent and quick and, most importantly, will enable entrepreneurs to receive financial support without collateral. NewBizNet also engaged in a series of microfinance public hearings throughout Ukraine (described above) to assist the Working Group in vetting ideas with the public and business community, and to begin building parliamentary support for the concept.

Tax Reform. In July and August 2000 NewBizNet was approached by the First Deputy Head of SCRPE, Mr. Zagorodniy, to assist SCRPE in preparing draft amendments for the second reading of the draft tax legislation in parliament. NewBizNet was asked to assist in reviewing legislation affecting SMEs. NewBizNet organized a working group together with the Analytic Coordination Center and Ukrainian experts to review the current draft and prepare a series of draft amendments, which SCRPE could submit to the parliament. The tax reform activity provided another opportunity for NewBizNet to strengthen its collaboration with Ukrainian policy reformers and support SMEs in Ukraine.

Moldova. NewBizNet was also actively engaged in policy reform in Moldova during this time. Direct assistance to the GOM began in the summer of 1999 with a study tour for Moldovan officials to Ukraine, to examine the SCRPE structure and consider whether the establishment of such an organization in Moldova would benefit SME reforms. As a result of this event, the NewBizNet team was invited to advise the GOM in a number of other areas as well. These included providing the Ministry of Economy and Reform with computer equipment and advising on the structural reorganization their office, and providing their staff with training. Perhaps most important, the project conducted the first national baseline survey of Moldovan SMEs, which will serve as a good measure of future progress and government reform in this area.

Component 2 Results

Some of the projects key accomplishments during this most recent period include:

- Developed and implemented a unique “Policy Implementation/Impact Monitoring System” which monitors the effectiveness of policies and regulations through Formal Surveys, Hotlines, Public Hearings and the Network of Associations;
- With business associations, established a network of SME “Hotlines” in 15 locations in Ukraine and 2 in Moldova to answer legal and regulatory questions for entrepreneurs;
- Conducted three regional public hearings with associations, government and entrepreneurs;
- Conducted five legislative implementation surveys in Ukraine;
- Conducted two additional, in-depth reports on ‘Women and Entrepreneurship’ and ‘Informal Activity in Ukraine’ with KIIS using the 1999 Ukraine SME Baseline Survey data;
- Through technical assistance made major headway in microfinance, towards a revised legal framework for NGO lending;
- Conducted 12 regional public hearings and one public hearing in Kiev on the draft microfinance law;
- Provided technical assistance in legislative reform on issues of tax reform and regulatory reform to the CMU and SCRPE;
- Conducted study tour for Moldovan officials to Ukraine to observe SCRPE structure and activities;
- Provided the Moldovan Ministry of Economy and Reform (MOER) with equipment (desktop, server, modem, printer and fax) to enable them to more quickly accomplish their work and to connect to the Internet;
- Advised on the structural reorganization of MOER, which eventually resulted in the integration of the legal office, small business office, and deregulation office under one director;
- Trained regional MOER staff on issues of taxes, registration, licensing, and deregulation (February 2000); and
- Conducted a SME Baseline Survey (2000) in Moldova in the status of SME development.

COMPONENT 3—BUILDING ADVOCACY SKILLS

In Phase 3 the purpose of NewBizNet support to associations through its network was two-fold: first to increase the interaction between associations and business service providers and second between associations and government authorities. The Business Associations Network became the Business Network, recognizing that both associations and business centers are key elements to the business support infrastructure in Ukraine. And in recognition of the fact that information is the foundation for advocacy, the project focused on helping associations access and generate their own data regarding SME development in Ukraine. To the maximum extent possible the PIMS activities described previously were conducted with and through associations. In addition to PIMS, where associations were prompted to engage government at every turn, associations were also provided in-depth training on advocacy through roundtables, conferences, and study tours.

National Business Associations Conference. On November 18-19, 1999 NewBizNet hosted a two-day Business Association Conference on the theme “Exchange of Ideas and Experience”. The Conference was attended by 310 people, of which there were 20 representatives from 10 national associations and 163 representatives of 88 regional associations, covering 23 oblasts of Ukraine. A special effort was made to ensure women are well represented at all levels of the Conference—as participants, organizers, and presenters.

The objectives of the Conference were:

- To discuss methods for business associations to influence economic growth and development of small and medium business in Ukraine;
- To demonstrate the capacity of business associations to develop solutions to the problems facing entrepreneurs and their potential to positively impact the economic situation in Ukraine on both regional and national level;
- To clarify the functions of a business association to members and, eventually, to increase the effectiveness, the image, and the impact of business associations as they serve their members and society;
- To develop specific proposals for resolving problems identified by focus groups in the course of the 8 round tables;
- To provide a forum for business associations, entrepreneurs, service providers, and state authorities to exchange information, discuss solutions to the problems existing in the sector, and establish partnership relations between them; and
- To provide participants with opportunity to learn from the experiences of associations in foreign countries.

NewBizNet facilitated 8 round tables at the Conference:

- Taxation Round Table;
- Advocacy Round Table;
- National Business Associations Round Table;
- Women and Business Round Table;
- Associations in Small Towns Round Table;
- Business Associations Management;
- International Partnerships Round Table; and
- Production, Processing, and Marketing Agricultural Products.

The roundtables provided participants with the opportunity to discuss, in-depth, a number of critical issues for SMEs and associations in Ukraine.

Regional associations especially appreciated the opportunity to introduce themselves and gather information from other similar organizations. Participation of the foreign community was essential since many countries have faced the same problems. Many participants have made common plans, projects and activities for the nearest future, some have formed partnerships, and the majority defined the range of immediate, solvable problems facing their members and ways of resolving them.

The Conference demonstrated that business associations are a growing potential for positively influencing SME development and, consequently, the economy of Ukraine in general. Through round table discussions and key-note sessions, business associations have become better equipped to participate in the policy dialogue; have formed a network with other similar associations in other regions; have identified resources to assist them in the policy process, both donor and Ukrainian.

Study tours. NewBizNet conducted two study tours within the region as a logical follow-up to the National Conference of Business Associations, and to introduce participants to foreign experiences in SME development and advocacy. In November—December 1999 NewBizNet conducted a study tour to Czech Republic for the representatives of the “Associations from Small Towns”, mayors of these towns and representatives of State Committee of Ukraine for Entrepreneurship Development. The objectives of the study tour were: to acquaint participants with Czech business association management and advocacy best practices; present business associations as an equal social partner; and introduce the participants to sources of information, forms of disseminating information and the ways of utilizing it to the benefit of entrepreneurs; identifying forms of state support aimed at creating conditions for small and medium businesses; and studying the functions, ways and tools of regional policy directed at entrepreneurial support. The total number of participants were 13.

In January 2000 NewBizNet conducted a study tour to Poland for “Women and business” associations, female entrepreneurs, female SCRPE ombudsman and representatives of State Committee of Ukraine for Entrepreneurship Development. The objectives of the study tour can be defined as following: acquainting the participants with the role of women in the economic and political life of Poland; presentation of the system of business organizations in Poland; learning the state policy principles and tools aimed at SME development in Poland; presenting women business associations management and advocacy best practice; and

providing the participants with sources of information, forms of disseminating information and the ways of utilizing it to the benefit of entrepreneurs. The total number of participants was 12.

Regional roundtable. The round table “Improving the Role of Business Associations in Business Development” was held on June 9, 2000 in Lviv. The primary topics for the round table were to identify methods of developing closer cooperation between the associations, local authorities, and mass media. In general, the participants in this round table have participated in either NewBizNet’s hotline/voucher program or both. During the roundtable the participants paid attention to the current relationship between business associations and state authorities and ways for developing a fruitful public-private dialogue. Business associations stated their intentions to create and participate in advisory councils, analytical groups and support all initiatives aimed at SME development.

Improving Legal Framework. As identified in Phase 2, the fundamental constraint to association development in Ukraine is their inability to raise funds by charging fees for services. In spring 2000 NewBizNet conducted two round tables to establish a Working Group to draft revised legislation which would address this issue. The legislation, “On Non-Profit Non-Government Organizations,” is being drafted with the support to the Expert Coordination Center along with a number of associations. The purpose of these roundtables was to identify the specific changes required to the existing legislation, to review several regional examples of such legislation, and to settle terminology issues (e.g., what kind of activities fit into ‘non-profit,’ and ‘non-governmental’). This important work needs to be continued under USAID’s new project in the fall of 2000.

A New Network. One of the more exciting developments in June and July 2000 was the potential development of a Ukrainian version of the NewBizNet Business Network. While the Network has been tremendously successful, a continuing concern has been the sustainability of such an operation, particularly as donor funding is diminished. In the last week in June 2000, NewBizNet funded the first meeting of the All-Ukrainian Business Development Council, an organization comprising of both business service providers and associations from 18 different oblasts. The major goals of the Council are to coordinate the work of the various elements of a business support infrastructure and facilitate their information exchange, and to develop standards for the training, consultative and other services of business providers. Should the Council succeed, this may be the beginning of a Ukrainian-managed Business Network. To support the Council in its initial development, NewBizNet undertook the following activities:

- **Strategic Development.** In July and August 2000 NewBizNet provided short-term technical assistance to the Board and members of the newly established Council. The purpose of the assistance was to assist them in developing a strategic vision and plan of action for the Council. This included a review of membership needs and interests, building consensus on the role of the Council vis a vis other national structures, and to determine which services the Council should focus on developing first. The assistance culminated in a facilitated workshop in early September where the Board members

developed a consensus around a plan of action, which they planned to present to the membership for approval during their second official meeting in early October.

- **Membership Development—Study Tours.** While the Council was busy establishing itself formally through registration and its strategic planning process, USAID and NewBizNet felt it was important to assist the Council in providing some immediate service to members so that they remained interested and committed in the development of the organization. Towards that end NewBizNet worked with the Council to develop three activities for members: a best practices workshop for BSC directors in Odessa; a best practices workshop for business association directors in Lviv; and a joint BSC/association study tour to Poland to discuss joint collaboration and relations with local authorities.

Moldova. At the end of 1999 and beginning 2000 NewBizNet began active work with associations in Moldova. During this period NewBizNet conducted 2 round tables with representatives from Moldova business associations. One was held in November 1999 and the next in February 2000. The first roundtable focused on the “Role of business associations in small and medium business support”. The objective of this round table was to improve Moldovan business associations’ skills in association management, to facilitate information exchange between Ukrainian and Moldovan business associations, and discuss methods of effective collaboration and cooperation with state organizations. The second roundtable was on “Methods of SME Development Support”. The purpose of the round table was to discuss ways that association services could contribute to the development of their member businesses.

Component 3 Results

Among the main accomplishments of the program are the following:

- Service providers were successfully integrated to the Network. The total number of Business Network participants is approximately 200;
- Held a national Business Associations Conference in Ukraine, “Exchange of Ideas and Experience,” the first national scale event dedicated to business associations, with 8 round tables;
- Two study tours were organized to Poland and Czech Republic;
- Two association round tables conducted in Moldova;
- Two round tables conducted in Kiev on NGO draft law;
- Used work orders to fund an innovative pilot voucher program, administered by associations in Lviv and Rivne, to stimulate demand for business training. A total of 350

entrepreneurs from 297 SMEs were trained at a cost to NewBizNet of \$0.45 per person training hour, and the two associations together attracted a total of 60 new members;

- Through business associations, replicated the successful pilot voucher program in seven additional regions of Ukraine, making reduced price business skills training available to 1,225 entrepreneurs;
- Held a series of 7 advocacy round tables for Ukrainian associations;
- Participated in the establishment of the All-Ukrainian Business Development Council, in June 2000; and
- Provided assistance to the Council in both membership services (workshops and study tours) and strategic planning, in July and August 2000.

CHAPTER FOUR

LESSONS LEARNED AND RECOMMENDATIONS

The success of the NewBizNet project is primarily based with its ability to adapt to changing circumstances and levels of development within the Ukrainian business community. Whether working with business service providers, associations or policy-makers, the project's flexibility to respond to changing demands and interests meant that it could provide the right combination of services at the right time. Following are examples of the project's flexibility and adaptation, and how that led to key successes.

BUILDING BUSINESS SERVICES PROVISION

When the project began in 1995 the availability and quality of business services throughout Ukraine was quite low. The project's initial focus, to build up the services and capabilities of selected business service providers was an explicit attempt to build the supply of such services in Ukraine. One of the key successes during that phase of assistance was the establishment of a network of the business service centers. Such a network enabled products/technologies and experience exchange between the centers, provided access to regional resources throughout various parts of Ukraine and made the services of the centers complimentary. Moreover, the network comprised of nine BSCs was viewed by the clients and the partners as a professional and effective system with broader scope of abilities and opportunities versus the odd local centers.

Another successful element of the project was encouraging BSC-collaboration with local authorities, including those in charge of SME sector and economic development. BSC directors found that this provided them with tools to impact local enterprise development policy, to raise vital business problems of their clients in front of officials in charge and to help establish and maintain a continuous productive dialog between business circles and local government.

As the skills and capacities of BSCs improved, the project shifted focus towards stimulating demand for the new-developed BSC activities. This was a critical adaptation for the project: rather than focusing exclusively on developing the supply of business services during the last 18 months of the project—though that would have been consistent with the project scope of work—the project tested several 'pilot efforts' toward stimulating the demand for business services. This was a risk for DAI and for USAID—not only was it outside the original scope of the project, but DAI was adapting methodologies it had implemented in Latin America to the Ukrainian context. While internal assessments indicated that the market in Ukraine was mature enough to respond, there was no guarantee that the pilot efforts would succeed.

In fact, however, most BSCs regarded the voucher program as extremely successful, both in identifying new clients and strengthening relationships with local associations. Partnerships with regional associations of enterprises and businessmen were of particular use for the BSCs since it opened access to potential clients and helped tailor targeted services for SMEs.

Although the focus of the project shifted towards stimulating demand, the project still wanted to support the supply of business services, but in a more targeted fashion. The work order system was estimated as a highly appropriate scheme to support SME services by the centers. In a final debrief with the BSC directors, most indicated that it would have made sense to launch WO scheme earlier in the project. The work orders would have ensured that support was provided in the target areas and for the services that are of vital importance for SME.

The market for business services in Ukraine is significantly more mature now than it was in 1995. There are a number of qualified providers throughout Ukraine in both small and large cities, and the range of skills offered has increased. Entrepreneurs, the buyers of those services, are also more sophisticated and discriminating, understand the value of business support providers and are looking for specific skills to enhance their productivity and competitiveness. The continuation of programs such as vouchers is critical to stimulate the business services market in Ukraine without introducing market distortions.

BUILDING A SUPPORTIVE OPERATING ENVIRONMENT

As was the case for business services, the project was also flexible in its approach towards supporting business associations. For example, initial focus was on supporting the internal development and operations of a few existing associations in Ukraine, to make them more effective and to build their understanding of the role and potential of such associations. Within this context the project provided selected associations with grants to undertake new and innovative membership services. These grants were an extremely successful incentive for encouraging associations to apply best practices obtained during association workshops, and to raise awareness about the association and its activities.

As the capacity of Ukrainian associations matured, the project focused more and more on building networks and linkages between associations. The resulting Business Network provided associations with the opportunity to learn from one another, rather than from foreign consultants, and to share lessons learned with their colleagues.

Only after there was a critical mass of associations, capable of actively engaging local authorities to improve the business environment, did the project effectively take on policy reform. Prior to developing Ukrainian associations as vehicles for pursuing reform, the project was simply one more of a long succession of USAID projects that provided expert international advice. The Ukrainian government had plenty of advice on what it should do—what it lacked was a domestic constituency demanding that it implement those reforms.

Key to this advocacy were NewBizNet activities that helped associations to process, generate and share useful information, instead of merely being customers of such information. This was accomplished through the hotlines, public hearings, and various surveys undertaken with associations. As a result, associations and organizations improved advocacy skills that they are now using to better promote their members interests to the government and to the public-at-large. Associations are trying to both lobby amendments to existing legislation that

hamper the development of entrepreneurship, as well as participate in the development of draft legislation at the initial stage. In the past year associations have realized that lobbying is a much more complicated process than the antagonistic opposition to the state authorities they imagined it to be. They now demonstrate through their work and approach that cooperation and networking is a better way to advocate for their members. Because of these NewBizNet activities, associations and governmental officials have an improved understanding of each other and the concept of advocacy in improving SME policy.

A challenge facing these associations, however, is how to link their lobbying activities at the national and local levels. In part this challenge stems from the opaque administrative structure that was never fully rationalized when the decentralization process was undertaken. Several laws that are implemented locally—that is, by tax inspectors, customs officials, etc—are drafted at the national level without sufficient instructions for their implementation. As a result, associations are often unsure which level of government to lobby—is it the local level where officials are directly elected and have some incentive to respond to constituency pressure? Is it at the oblast level which may have some control over the state office responsible for implementing the law, but which is not locally elected and therefore has little incentive to respond to direct lobbying? Or is it at the national level where most decisions are made? Answers to these questions vary by oblast, depending on the type of leadership and their relative responsiveness to either local or national level pressures. Lack of consistency across oblasts makes coordinated lobbying campaigns difficult. As a result, donor programs need to be very well coordinated across the different government levels in order to address regulatory constraints at all levels.

Among the remaining challenges facing Ukrainian entrepreneurs is lack of access to credit. Both NewBizNet BSCs and associations report that the perpetual need to provide their clients/members with access to credit and investment resources was a major impediment to local growth. Although NewBizNet began to address this issue in the last months of the project by developing draft legislation for a nonprofit, non-bank microfinance structure, this structure is but one of the many potential mechanisms for providing credit to the Ukrainian SME community. The SME community will continued to be constrained until this issue is resolved.

An important next step, regardless of which microcredit mechanism is adopted, is to conduct a comprehensive public education campaign. Clearly entrepreneurs lack a good understanding of how microcredit differs from regular commercial credit programs, and therefore how it could best assist them in developing their business. The questions asked by entrepreneurs at the microfinance public hearings illustrate this misperception.

In addition, the public education program should target associations and business service providers, so that they can provide accurate and helpful information to their members and clients. Many of the associations involved in drafting and developing the new law actually do not serve or represent micro-entrepreneurs, those eligible for financing under the draft law. Instead, the associations are really interested in SME financing, and need to understand how this law could be the first step towards developing other mechanisms to benefit their members.

Last, government officials—at all levels—require information about microcredit. At the NewBizNet public hearings, it was clear that several government officials at the local and oblast levels perceived the proposed microcredit program as either in competition with or very similar to various subsidy programs they operated. In order for government to effectively support the growth small businesses, they require a better understanding of the constraints of the commercial credit market and unique benefits of a non-government microcredit program.

In sum, the lessons learned on the NewBizNet Project can be categorized as follows:

1. Technical assistance provided through and to networks of associations or business service providers, is more effective than assistance targeted to a few, select institutions. Not only can the donor reach more domestic institutions, but the institutions are more likely to learn ‘best practices’ from their peers than from outsiders. In addition, these ‘learning’ networks and informal relationships remain long after direct donor assistance is discontinued.
2. Programs that focus on business service development should include activities that stimulate both the demand for, and supply of, business services. The risk of focusing exclusively on one or the other is that either the demand for training or consultative services will outpace the ability of the market to provide quality services, or that the supply will artificially develop in areas where there is no real market demand. At the same time, however, programs should be developed in a way that they stimulate the market in a non-distorting fashion—without providing overly large subsidies to either the customer or providers.
3. Policy reform is most effectively pursued through groups of local constituents, rather than solely by international experts. While this requires more up-front assistance to the local organizations, in order to develop their skills to the point that they can effectively take on policy reform, in the long run this approach results in more informed and effective advocates after donor-assistance ends. This approach also requires the donor and assistance providers to focus more on establishing a transparent and inclusive ‘process’ that will remain in place for the long-term, rather than solely on the specific policy issues during the life of the project.
4. As a part of establishing a policy ‘process’, local organizations also need to build the capacity to generate and produce their own information regarding the sector they represent, rather than solely being ‘fed’ information by donor projects. Not only does this help them develop the skills to analyze policy options effectively, it gives their positions more substance and depth than if they don’t generate the information themselves. In this way, local associations and institutions are truly responsible for making the policy decisions that best assist their members.

CHAPTER FIVE NEWBIZNET FINANCIAL REPORT

The table below provides the final financial numbers for the NewBizNet Project.

CATEGORY	BUDGET AMOUNT	INCEPTION TO LAST REPORTED PERIOD	THIS PERIOD	CUMULATIVE AMOUNT	REMAINING AMOUNT	PERCENT OF BUDGET EXPENDED
SALARIES	\$2,570,625.00	\$2,465,853.93	\$22,623.55	\$2,488,477.48	\$82,147.52	96.80%
FRINGE	547,559.00	368,431.66	\$3,281.10	371,712.76	175,846.24	67.89%
OVERHEAD	1,528,740.00	1,387,478.39	\$11,746.16	1,399,224.55	129,515.45	91.53%
SUBCONTRACTOR	1,338,733.00	1,173,210.95	\$0.00	1,173,210.95	165,522.05	87.64%
TRAVEL/TRANSP/PER DIEM.	1,039,245.00	1,104,551.45	\$5,589.02	1,110,140.47	(70,895.47)	106.82%
ALLOWANCES	1,203,156.00	1,179,603.50	\$8,397.16	1,188,000.66	15,155.34	98.74%
OTHER DIRECT COSTS	273,696.00	317,769.54	\$906.89	318,676.43	(44,980.43)	116.43%
PROCUREMENT	1,294,180.00	1,378,885.87	0.00	1,378,885.87	(84,705.87)	106.55%
PROJECT SUPPORT COST	\$4,533,562.00	4,573,593.82	101,171.84	4,674,765.66	(141,203.66)	103.11%
G&A	\$999,991.00	967,182.72	12,604.69	979,787.41	20,203.59	97.98%
SUBTOTAL	\$15,329,487.00	\$14,916,561.83	\$166,320.41	\$15,082,882.24	\$246,604.76	98.39%
FEE	837,558.00	793,964.78	43,593.22 *	837,558.00	0.00	100.00%
TOTAL	\$16,167,045.00	\$15,710,526.61	\$209,913.63	\$15,920,440.24	\$246,604.76	98.47%
TOTAL FUNDING AMOUNT: \$16,167,045.00						
% OF FUNDING SPENT: 98.47%						

* IT INCLUDES REMAINING FEE OF \$34,744.97

ALLOWANCES includes Allowances, Post Differential and COLA

OTHER DIRECT COSTS includes Other Direct Costs & Fica

PROJECT SUPPORT COST includes Project Support, Project Support & Non-fringe intermittent,SME fund